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Canada

Poultry and Products

Update on Brazilian Chicken in the Canadian Market 2005

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Report Highlights:

Canada has allowed imports of Brazilian chicken since it approved the poultry meat inspection system of Brazil in July 2002. In 2003, Canada imported a small amount of Brazilian chicken but in 2004, tight supplies of chicken in Canada resulted in the importation of almost 20,000 metric tons of cheap Brazilian chicken representing 22% of total Canadian chicken imports. Traditionally, Canada has imported virtually all its chicken imports from the United States. This report looks at the prospects for Canadian imports of Brazilian chicken in 2005 and the surrounding issues.

Includes PSD Changes: No
Includes Trade Matrix: No
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[CA]

Canada has allowed imports of Brazilian chicken since it approved the poultry meat inspection system of Brazil in July 2002 (see CA2088). Up until that time, Canada sourced virtually all its chicken imports from the United States. Since Canadian imports of chicken are regulated under a Tariff Rate Quota (TRQ), it was feared that U.S. chicken exporters would face formidable competition from cheap Brazilian chicken in the restricted access Canadian market. Did this happen? Has Brazilian chicken captured significant import market share in Canada?

Under its implementation of the WTO Agreement on Agriculture in 1995, Canada eliminated its quantitative import restrictions on poultry and eggs and imposed TRQs on these products. However, the WTO access formula would have resulted in access levels that, in certain instances, were below the levels stipulated in the NAFTA. As a result, Canada announced that it would apply the higher of either the WTO access level or the NAFTA formula level for poultry and poultry products. Currently, the Canadian WTO access level for chicken is 39,844 metric tons. The NAFTA formula level (based on 7.5% of the previous years' chicken production in Canada), and the TRQ level in effect for 2005 is 69,700 metric tons (subject to revision on the publication of the level of chicken production in 2004). Canada does not apply the TRQ to meat from spent fowl. Currently, almost all Canadian imports of spent fowl originate in the United States.

Canada: Imports of Fresh or Frozen Chicken (cuts, whole, offal) Excluding Spent Fowl

Units: kilograms

Country	January - December			% Change - 04/03 -
	- KGM - 2002	- KGM - 2003	- KGM - 2004	
-- The World --	64,387,288	64,070,313	86,153,858	34%
United States	64,387,199	61,088,455	67,136,680	10%
Brazil	89	2,981,603	18,949,317	536%
Malaysia	-	-	49,996	-
Uruguay	-	-	11,085	-
South Africa	-	-	4,500	-
Austria	-	-	2,234	-
France	-	-	46	-
Thailand	-	249	-	-100%
Australia	-	6	-	-100%

Chicken Imports Excluding Spent Fowl includes:

0207119100 Fowls (Gallus dom),whole,exc spent fowl, fresh/chi
 0207119200 Fowls (Gallus dom), whole,exc spent fowl, fresh/c
 0207129100 Fowls (Gallus dom) whole,except spent fowl, frozen
 0207129200 Fowls (Gallus dom) whole, except spent fowl, froze
 0207139100 Fowl (Gallus dom) cuts & offal,o/t spent fowl,fres
 0207139200 Fowl (Gallus dom) cuts & offal,o/t spent fowl ,fre
 0207139300 Fowl (Gallus dom) cuts & offal,o/t spent fowl,fres
 0207140000 Chicken Cuts and edible Offal (incl livers), frozen

Source: Statistics Canada and the World Trade Atlas

Brazil Captures Sizeable Import Market Share

The preceding table illustrates the Canadian import market for fresh or frozen chicken for the years 2002-2004. In the first full year of Brazilian access to the Canadian chicken market, imports from Brazil accounted for 4.7% of total Canadian chicken imports and the U.S. accounted for the remainder, 95.3%. By 2004, Brazilian product accounted for 22% of total Canadian chicken imports worth \$33.5 million. According to International Trade Canada (ITCan), the department responsible for administering Canada's poultry TRQ, Canadian demand for Brazilian chicken was for frozen wings and frozen boneless breasts for the foodservice industry. The development marked the first time that U.S. chicken exporters have had serious competition for the Canadian chicken import market.

Avian Influenza in British Columbia and Record U.S. Exports

Canadian imports of U.S. chicken in 2004 reached their highest level on record at 67,137 metric tons worth \$160 million. In fact, with the exception of 2003, the quantity of U.S. exports of chicken to Canada has registered a year-over-year increase every year for at least the last decade. Under a special import provision, ITCan can issue supplementary import permits (for amounts in addition to the TRQ) if the department determines there is a shortage in Canada for a particular cut or type of chicken. During 2004, the British Columbia poultry industry suffered an outbreak of avian influenza resulting in the depopulation of 75-80% of its provincial poultry flock. As a result, issuances of supplementary imports allowed B.C. poultry processors and purveyors to import record levels of U.S. chicken to cover the supply shortfall.

Price Comparison of Brazilian Versus U.S. Chicken

Official Canadian trade data show that almost all imports of Brazilian chicken into Canada during 2004 were destined for the heavily populated provinces of Quebec and Ontario. There appears to be no direct link with increased imports of Brazilian chicken to the demand for product in British Colombia brought on by shortages linked to the avian influenza crisis. Most of that shortfall was filled by U.S. product and other-region Canadian domestic product.

The following table shows the derived average price in U.S. dollars per kilogram of U.S. and Brazilian chicken imported into Canada. The average price is derived by dividing the total import value by the quantity imported. For 2004, Brazilian chicken at \$1.77 per kilogram (average all cuts) was \$0.61/kg (25%) cheaper than U.S. chicken at \$2.38 per kilogram.

Under NAFTA, U.S. chicken (within the Canadian TRQ) enters at a free rate. Brazilian chicken is subject to a duty of 5%, but not less than 4.74 cents per kilogram or more than 9.48 cents per kilogram.

Canada: Chicken Imports from the U.S. and Brazil

Average Price \$US per kilogram

Description		2002	2003	2004
United States				
	Chicken Imports Excluding Spent Fowl	1.81	2.00	2.38
0207119100	Fowls (Gallus dom),whole,exc spent fowl, fresh/chi	1.29	1.34	2.20
0207119200	Fowls (Gallus dom), whole,exc spent fowl, fresh/c		1.65	
0207129100	Fowls (Gallus dom) whole,except spent fowl, frozen	1.25	1.37	1.65
0207129200	Fowls (Gallus dom) whole, except spent fowl, froze	1.37	1.40	2.16
0207139100	Fowl (Gallus dom) cuts & offal,o/t spent fowl,fres	1.92	2.29	2.54
0207139200	Fowl (Gallus dom) cuts & offal,o/t spent fowl ,fre		2.84	
0207139300	Fowl (Gallus dom) cuts & offal,o/t spent fowl,fres	2.95	3.87	4.89
020714	Chicken Cuts & edible offal, (inc livers), frozen	1.57	1.47	2.09
Description		2002	2003	2004
Brazil				
	Chicken Imports Excluding Spent Fowl	1.48	1.49	1.77
0207139100	Fowl (Gallus dom) cuts & offal,o/t spent fowl,fres		2.78	2.73
0207139200	Fowl (Gallus dom) cuts & offal,o/t spent fowl ,fre		6.09	
0207139300	Fowl (Gallus dom) cuts & offal,o/t spent fowl,fres		5.41	
020714	Chicken Cuts & edible offal, (inc livers), frozen	1.48	1.49	1.76

Source of data: Statistics Canada

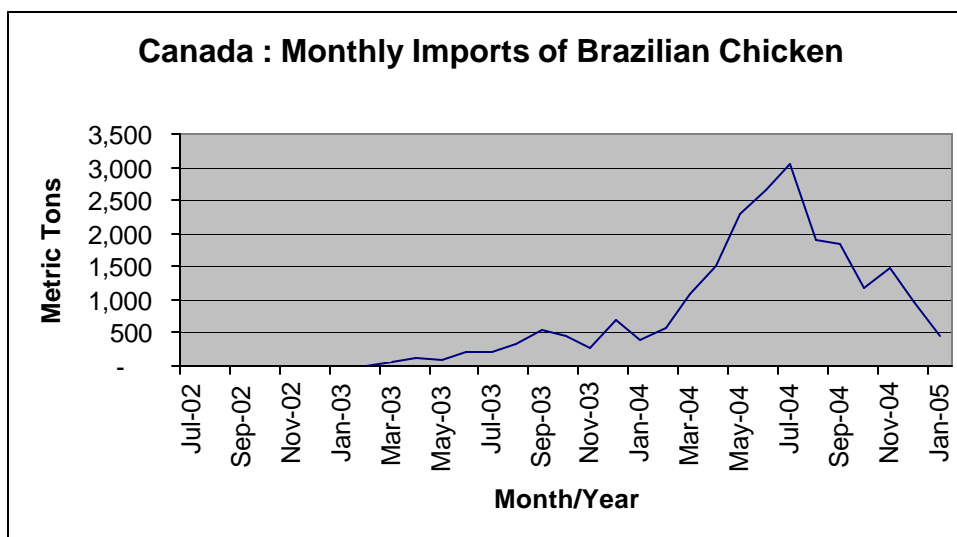
Outlook for 2005

Will Brazil continue to increase chicken exports to Canada?

During 2004, the avian influenza outbreak in British Columbia disrupted the Canadian poultry market. Chicken shortages in B.C. were filled partially by increased imports of U.S. chicken and chicken production from other Canadian provinces. Since chicken supplies in the United States were also relatively tight that year, shortfalls in the important Ontario and Quebec foodservice markets for wings and boneless breasts created demand for cheap Brazilian chicken.

At this early juncture in 2005, anecdotal evidence suggests weaker demand for Brazilian chicken in the Canadian market through the first half of the year. In several provinces, recent smoking bans in bars, pubs, taverns, legions and nightclubs have had a negative impact on food and liquor sales during the 2004/2005 winter period. In addition, the absence of a National Hockey League season due to a labor dispute has severely impacted regular attendance at Canadian sports bars and other venues that traditionally serve finger foods such as chicken wings.

The chart below illustrates that Canadian monthly imports of frozen Brazilian chicken peaked during July 2004 and with the exception of November 2004 have declined every month since that time.



Can Brazilian Product in Canada Make Its Way Into the United States?

Current U.S. animal health regulations prohibit the import of Brazilian chicken into the United States. To ensure that Brazilian product imported into Canada does not enter the United States, the Canadian Food Inspection Agency and the Animal and Plant Health Inspection Service deem that Canadian registered slaughtering or processing establishments that receive, handle or store Brazilian poultry meat are ineligible to export raw poultry meat products to the USA. The list of Canadian establishments that are not eligible to export raw poultry meat to the USA is updated regularly. Poultry meat originating from those establishments must not be present in slaughtering or processing establishments that wish to keep their full export privileges to export poultry meat to the United States.

Canadian slaughtering or processing establishments that have prohibited poultry meat products on their premises, may obtain (restricted) approval to export cooked poultry meat to the U.S. provided the product is derived from poultry of Canadian or U.S. origin and is cooked to an internal temperature of at least 72C. Poultry meat originating from Brazil or other prohibited countries is not eligible for export to the U.S. even if it is cooked. In the latter case, poultry meat from restricted establishments requires a special transfer certificate confirming compliance with applicable requirements and according to the CFIA, as of March 14, 2005, there were no Canadian establishments on the restricted approval list.

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